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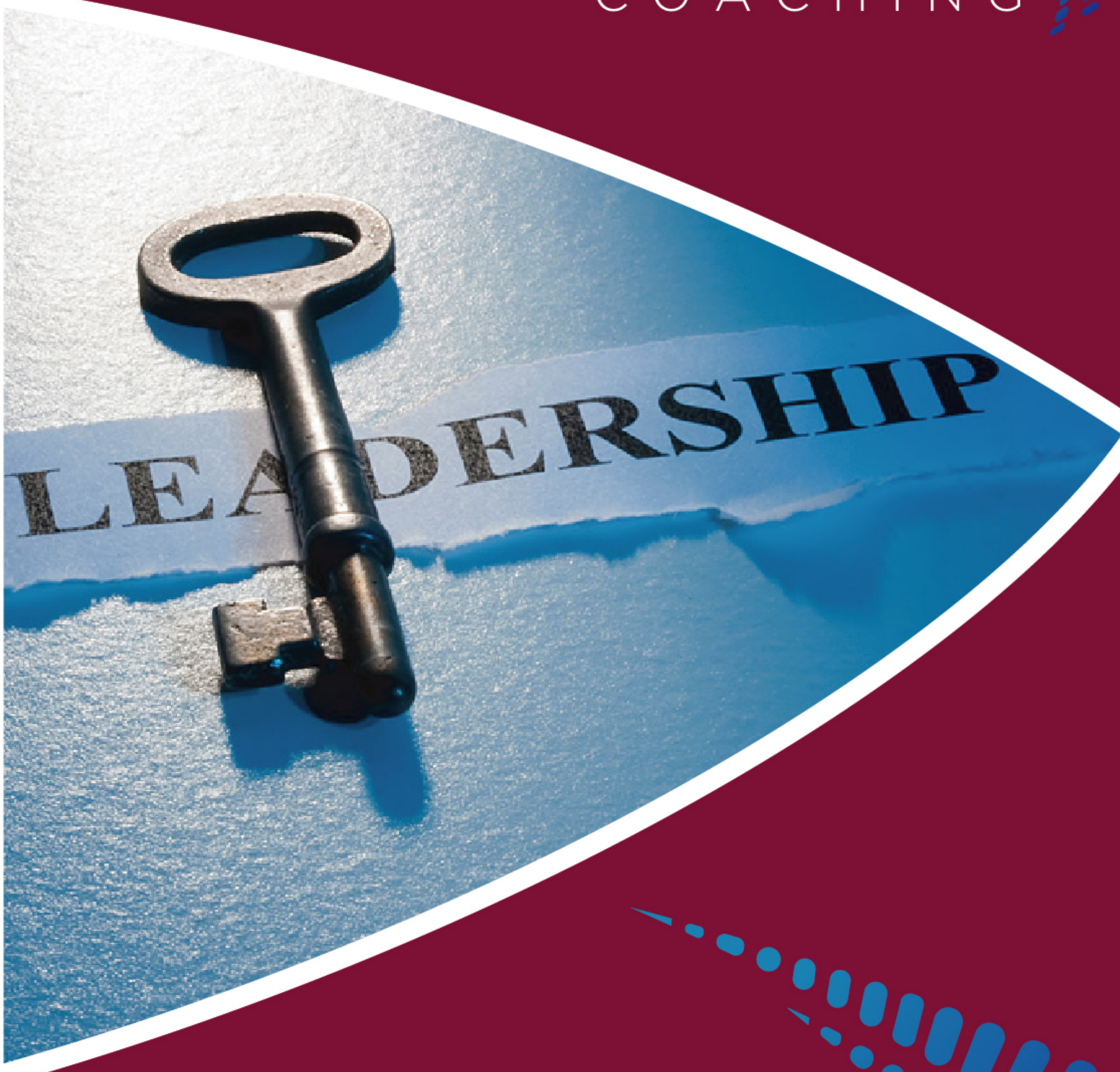

10 expectations of your financial planning firm of the future

10 expectations for your financial planning firm of the future

By Scott Charlton FCA

Executive summary

For financial planning firms, the road ahead is both exciting and challenging. In this paper there are 10 predictions for forward-thinking practices to incorporate into their future plans. The paper also provides guidelines and suggestions to implement these predictions.

Introduction

The day to day challenge of running a financial planning firm can be all consuming. However, without occasionally "raising the periscope" to look at what is happening and where the firm should be going, planners risk losing sight of important trends and failing to optimise their potential.

The purpose of this paper is to provoke thought and reflection amongst planners who run their own practice. By all means disagree with these expectations. Irrespective, taking time out to consider the important strategic issues that you need to address will improve your focus and help you take advantage of emerging opportunities. Ultimately this process will help to ensure that your firm thrives in the areas where you have chosen to be excellent.

1. Clients will have considerably different needs and expectations

My prediction: Generic, *one-size-fits-all* financial planning firms are going to get eaten for breakfast.

Here are some reasons why –

- Consumers of financial planning services have considerably different needs. By offering yourself to be a jack of all trades you run the risk of being second best in every client category.
- Low touch, low relationship clients will end up with low cost, high volume business models. Ready examples are institution based planners who are flogging proprietary products and industry superannuation funds. Even these models will come under threat, from the *robo-advisers*.
- Clients with specific needs will gravitate towards firms that specialise in these areas. By specialising, such firms get highly efficient in providing their services and are able to keep building expertise in their chosen area.
- A generic FUM based fee model does not suit every client. Accumulators and retirees whittling down their savings are two such examples where the traditional model doesn't work particularly well.

2. Consider specialisation

Following on from the above, a "take on all comers" approach is vulnerable to a competitor who has a well thought out value proposition which caters for a particular client niche.

Not only does specialisation lend itself to generating superior profitability, it provides much greater scope to market the firm. If all you are doing is the same as everyone else, your marketing message will be mediocre at best – "*We have the same qualifications as everyone else and yes, we provide investment advice and personal care too".*

That's not to say however you will necessarily turn away clients which don't suit your preferred client profile. Your ideal client could potentially have ageing parents who need to be incorporated into estate planning and asset protection strategies. That same client may also have adult children looking for guidance. Equally, practitioners in rural communities are understandably apprehensive about diminishing their goodwill by turning away referrals from clients.

In such situations, it makes good business sense to have a means to handle these clients without "the tail wagging the dog". You have likely seen situations where important projects for your best clients are put on hold to attend to crises, concerns and issues relating to demanding low value clients. Whether you tackle this through efficient systems, referral to other practitioners or judicious use of outsourcing is up to you. The overall imperative is to keep a firm focus on those clients where you can add the most value.

3. A broader skills base …. and a much bigger mindset

The foundation for optimal results in professional services firms is an organisation with a well-considered organisation structure and appropriately talented people in all positions. Yet many financial planning firms are still run with a "cottage industry" mentality and the "biscuit tin" measure of business success[1]. "Old school" rules of thumb and limiting beliefs continue to linger, despite compelling evidence to the contrary – refer to Appendix A for a discussion on this issue.

Similarly, even in firms which are desperate to grow revenue, there is often no in-house marketing capability or provision in the financial budget for marketing expenses.

The firm of the future on the other hand will invest in marketing, sales and management expertise.

Note that this doesn't necessarily mean that all these resources need to be packed in under your roof. With today's connectivity you can access these capabilities as you need them. Some ready examples -

- Referral relationships with like-minded professionals specialising in complementary areas - accountants, finance brokers, general insurance brokers, lawyers etc. Some of these relationships will be local whilst others will entail expertise which is only to be found in CBD office towers
- Use of contractors with specific expertise - paraplanners, consultants etc. - who can be engaged for standard pricing and fixed fee assignments

[1] If there is money in the bank, we must be doing OK.

- Strategic alliances with organisations dedicated to providing resources and support in areas which are important to your value proposition such as your dealer group, a marketing consultant and/or a business coaching organisation.

Rather than approaching such arrangements on an ad hoc basis, systematically building these aspects into your firm will help to provide a powerful value proposition and an outstanding marketing message.

4. Licensees won't have all your answers

If you are looking for the "perfect licensee", where all of your lead generation, compliance, IT, and professional development needs are delivered to you on a silver platter, you likely should be working for a bank or credit union. Otherwise, you must accept the reality that there will be gaps between what your licensee provides and what you require.

Let's take business growth as a prime example. Superficially, licensees are aligned in growing your firm's top line revenue and most will provide a well-meaning relationship manager to provide some assistance to do this. Yet as a professional business coach I know that financial planning firms seeking high performance outcomes will benefit from specialist assistance which is beyond the skill set and capacity of dealer groups to provide. Firms joining our group coaching program or attending our special skills workshops (e.g. accounting referral relationships) get access to knowledge not typically found in licensees. A dedicated business coach who helps you to formulate ideas, nurtures your desire to specialise, tracks your numbers and holds you accountable for completing projects is typically found in a specialist coaching company, not a licensee. Further, being part of a peer network where one can meet regularly to share experiences and tap into a collective expertise will be invaluable. For those so inclined, extending these peer interactions to mutual accountability for completion of projects and attainment of objectives will also boost your outcomes.

So too you will find examples in other areas –

- Specialist learning and qualifications through organisations such as the Self Managed Super Fund Association[2];
- Industry association training such as the AFA roadshows and annual conference
- Engaging specialist marketing skills – refer below

Ideally, you will find a "best of breed" approach, where you can find external assistance which complements what your licensee provides in the areas where you need help. A word to the wise however – you must take primary responsibility to get the assistance required. After all, no one else knows your business objectives better!

[2] Formerly SPAA.

5. Moving away from commissions and %age of FUM, at least in part

Increasingly, as one develops experience and expertise, the realisation dawns that in certain situations the value which is being imparted to clients cannot adequately be captured by traditional financial planning revenue models.

In many instances the advice that you share with clients to solve their problems and keep them on track to achieve their objectives will not directly relate to a product solution. Whilst a discussion on value pricing is beyond the scope of this paper, astute financial planning firms will at least be setting the expectation with clients that some assignments will be invoiced separately to annual retainer arrangements.

For those who provide personal risk insurance services, it must be said that the commission based system is deeply flawed. A detailed exploration of those flaws and a discussion on moving away from this system is also beyond the scope of this paper. However, I think it's fair to say the commission system continues only as a by-product of history – it would not be designed this way if the system was being set up today! As an adviser, you are not obliged to simply accept the status quo. You can alter the model to better match the value you provide in different aspects of the service.

So too, a remuneration system based solely on FUM is problematic. At best %age of FUM is an approximation, best suited to a client whose entire wealth is in managed funds. In reality, clients hold other asset classes and have financial issues for which they require assistance. For an adviser to have a FUM-based mindset almost certainly is not paying adequate attention to the possibility of other assignments, such as intergenerational wealth planning, asset protection, debt management and personal cash flow management. Yet all of these areas offer profound revenue generating opportunities in areas of great value to clients.

6. Professional management, even for small firms

Astute practitioners will recognise that their time is best invested with clients rather than flailing away at management tasks and administration. It's extremely hard to do both managing and advising. It's next to impossible to be the best at both. Yet many persist in juggling management tasks in between appointments.

Larger firms are able to hire a talented GM but this can be a confronting issue for small firms i.e. how to justify the expense of professional management and be comfortable with delegating aspects of control that the founder has always exercised.

A good place to start is the firm's organisation chart, clearly defining roles that need to be filled in the business, including the major management tasks. You might be surprised how much can be delegated with good role descriptions, procedure manuals and training.

You may also care to consider appointing a manager on a part time basis. There is plenty of experienced talent around if you look closely enough. For example I recently heard of a retired bank manager filling such a role in a financial planning firm. Other firms I know have engaged an experienced practice manager on a part time basis to work on developmental projects.

Regardless of how you tackle improving your management function, the optimal solution is unlikely to be toughing matters out until the firm has magically grown to be much larger and more profitable. Rather, great management is a key component in getting you to this outcome.

Small practices also face a challenge in terms of their governance. For example, who keeps the sole proprietor accountable? How to work through issues about which two equal business partners are diametrically opposed? What if the three partners in a practice are such good mates that they don't take one another to task for non-performance?

In such situations, an external party can bring a range of desirable qualities to the table. The roles will vary from case to case - mentor, coach and/or external board member. Careful development of the role description(s) will pay dividends here, together with astute selection of an appropriate person to fill each position.

Many practitioners also find great benefit in tapping into the support and input from colleagues. This could be in the form of informal networks and peer review programs. However if accountability is desired, a degree of structure, such as a formal coaching program, will often yield outstanding results (provided all participants play their part).

7. There is a need to get much, much better with your marketing, particularly lead generation

Virtually all professional services firms have engaged the services of external providers for assistance with the branding aspects of their marketing. Typically this includes the design of logo, letterhead, business cards, website and signage. This is largely considered to be an occasional "Thank goodness that's over" engagement. The trouble is that such marketing by itself does not bring in clients.

Most financial planners back themselves to convert a prospect to a client when that person arrives in the office. Yet the same planners fail to implement a marketing plan which will bring sufficient prospects to the door. In fact, to be brutally honest, many planners –

- Have received no training in marketing
- Devote very little time and $budget to marketing
- Try lots of strategies but fail to implement any one of them effectively before moving on to the next one
- Have not considered what type of marketing would be most appropriate to attract their target market
- Are secretly hoping that someone else will take care of this issue so all they have to do is see the new clients

The good news is that it actually is not that hard to be much better at marketing than most of your competitors. Elements of a successful marketing program will most likely include –

- ✓ Obtaining a basic understanding of marketing and what it entails, for example, through Slipstream Coaching's *Marketing Guide.*
- ✓ Becoming very clear on who your target client is and the value you provide to such clients

- ✓ Appointing a part time marketing assistant - someone whose role it is to ensure that basic marketing activities are attended to each week. This role will likely include maintaining the firm's prospect database, sending out newsletters and chasing up professional team members for newsletter articles etc. The role can also involve organising client seminars, boardroom briefings and speaking engagements.
- ✓ Engaging a strategic marketing consultant for higher level thinking – someone who can be engaged as required or even better, on a retainer arrangement for an agreed set of services. This appointment works extremely well in conjunction with the part time marketing assistant referred to above. The Assistant will be responsible for implementing the initiatives agreed with the Strategist. The amount of time required by the financial planner in this process is minimal and yet the results can be profound.

Such an arrangement ensures that something is continually happening to attract the type and number of the target clients that you are seeking.

8. You will recruit and grow your own advising talent

The recruitment process of financial planning firms when it comes to new advisers reflects cottage industry thinking. This usually entails dipping into the very shallow pool of candidates consisting of frustrated bank planners, BDM's seeking a career change and cast-offs who didn't fit into their last job(s). On top of this inauspicious beginning, many firms overlay unrealistic expectations regarding the need for a client base and largely performance-linked remuneration. It's little wonder that such appointments have such a low success rate!

In more mature professions such as law and accounting, nurturing the next generation is <u>part of the deal</u>. Even in my days as a sole practitioner[3], I recruited undergraduates who served my firm and my clients well. Yes, taking this approach entails mentoring, training and a range of employer responsibilities. However, the benefits are considerable. For starters, you don't take on other people's cast-offs – instead you get to choose someone with high intelligence, great attitude, good IT skills and recent qualifications. These team members are then inducted into your processes and culture from Day One, progressively becoming more capable as they gain experience.

By consistently recruiting at the graduate/undergraduate level, you will "grow your own" advisory workforce, insulating your firm from having to revert back to the external pool described above. Following the proven processes with respect to client interaction that you will train them on, these team members will espouse the same values and achieve similar outcomes to more experienced team members. In time, they will also form the natural succession plan for the founders.

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[3] This became more systematic and on a larger scale after I had merged my firm with that of two other practitioners.

9. Accountants are increasingly going to be part of the financial planning picture

It's always been the case that accountants act as the "Gatekeeper" to many clients and this will continue. Where an accountant is a primary adviser to your target clients, they will have a large say in the success you achieve. Ready examples where there is usually high accountant influence include business owners, high net worth individuals and complex family groups.

On top of this, accountants are being drawn into the financial services world, courtesy of the FOFA rules applying from 1 July 2016. My prediction is that any firm which is significantly involved with SMSF administration will elect for one or more of its accountants to be licensed. This will see a significant number of accountants becoming authorised, such that there will be an overlap in the strategic aspects of advice which have been the exclusive domain of planners.

How this will play out in practice will vary considerably from case to case. However, here are some predictions which may prove helpful –

- Planners attempting to cut out accountants who have strong relationships with their clients invariably come off second best.
- Planners who position themselves as business partners to accountants, picking up that part of the financial services advice that accountants don't want to provide and helpfully steering accountants to appropriate licensing solutions will be rewarded with deep relationships.
- Many accountants who get licensed will be very apprehensive about preparing statements of advice. Indeed, some of these accountants may choose not to continue with their license after the first 12 months.
- Smaller accounting firms will likely choose not to be licensed, thereby enhancing the case for them to work closely with aligned financial planners.
- Above all, those planners who choose to develop working with accountants as a core competence will be richly rewarded in this new era.

10. Refresh, recharge and reinvent for a better, longer and more satisfying career

All too frequently, the demanding existence of being a practitioner reduces one's professional horizons and results in an outcome which equates to "I guess this is as good as it gets". And this will be the outcome unless you take charge. Long hours and dealing with multiple client engagements means that there is seldom time to celebrate wins before charging on to the next deadline. Holidays can be infrequent and never long enough to enjoy the tranquility which only comes from an extended period outside the professional pressure cooker.

Just as more expectant clients will be part of your ongoing professional challenge, so too you should expect more from your career. Because your time in practice will run for many years, it makes sense to plan a major "time out" for every decade. For some, these sabbatical events will be the catalyst to travel, particularly with family. This could also include periods for taking on further qualifications, a study tour or writing a book in one's area of professional expertise.

Of course, your firm needs to be sufficiently profitable for this to be practical – all the more reason to take action if your financial results are not what you want them to be.

In days gone by, "making Partner" was the culmination of one's career, signifying that this was the pinnacle at which one was expected to remain for the balance of their working life. However, rather than view yourself as such an automaton, it is reasonable to expect that your professional interests will evolve and develop. It therefore makes sense to provide yourself with the expectation and freedom to explore other areas of professional interest.

For some this will mean specialising within their chosen fields. Others will find business development, such as nurturing referral relationships, to be a great use of their experience. Certainly, it is usual for practitioners to become much more relationship orientated and have more value to offer their clients with respect to insights from their experience, leaving the more technical aspects of engagement to keen young members of their team.[4]

Action

Now it's your turn. There's no point reading this paper without acting on the points that resonated.

Here's a list of suggested actions.

- ☐ Go back through the paper and highlight the points of highest priority
- ☐ Share the paper with colleagues and get them to likewise identify priority items
- ☐ Develop an action plan, complete with dates. Then mark out time in your diary to give effect to your plans
- ☐ Discuss how these expectations will impact you business with our Director of Business Development.

You will find that decisive steps now will lead to significant outcomes in the future.

With best wishes for success in these endeavours.

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About the author
Scott Charlton is a chartered accountant who specialises in coaching accounting and financial planning firms. Scott is the author of three books relevant to accountants in practice, *Your Professional Headspace* (2011); *Partnering with Financial Planners* (2012) and *Partnering with Accountants* (2014). Scott is also Director of Coaching at Slipstream Coaching, a company dedicated to assisting accounting and financial planning firms achieve their potential. Scott can be contacted via email scott@slipstreamcoaching.com.au and on 0409 870 330.

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[4] For a further exploration of these issues, refer to "Your Professional Headspace" - http://www.scottcharlton.com.au/professional_headspace.php

Appendix A. Challenging some traditional thinking in financial planning

Traditional thinking	Not saying the old views are outright wrong, but here is some food for thought …
Financial planning businesses should be valued on the basis of a multiple of recurring revenue.	Buyers are increasingly looking at the demographics of the client base and will less inclined to pay a high multiple for an aging clientele An increasing number of practices are being bought and sold based upon a multiple of EBIT.
When it comes to selling my business, I'll get 3 times RR, maybe even more under a BOLA arrangement	Refer comments above. Buyers will increasingly stratify the client base and pay different (i.e. lower) multiples for various client categories And if you are pinning your retirement hopes on securing a BOLA arrangement ….. Good luck!
Life insurance is not bought. It must be sold.	Really? If this mindset was correct, why do we have a chronic underinsurance problem?
Clients won't value independent life insurance advice and the only way I can get paid is to provide life insurance is via commission.	There is an amazing inconsistency shown by advisers who proudly explain to their client how investment related service is independent of providers and yet provide insurance services under a commission model. Is the main reason for still using a commission model that you haven't devoted sufficient time to figuring out a better alternative? If so, the incoming rules limiting upfront insurance revenue and increasing the chance of write backs may provide incentive to give this area more attention!
The way to build my business is to keep accumulating FUM	What other opportunities are you missing with this focus? Have you considered client categories where FUM is (i) initially small but the client is able to pay for advice or (ii) a very small subset of the client's financial affairs?
Clients come to us and subsequently remain with the Firm based upon our investment expertise	Closely aligned with the (limitations) discussed above. Some financial planning firms are having success with re-orientating their value proposition away from investment returns, to helping clients identify and achieve their financial goals.
"I'll take on any client that comes on board. Even if their business is small, they might be able to refer someone big and/or they may grow into something bigger themselves."	Invariably such an approach creates a "busy-ness" within a firm which, whilst not optimally profitable, precludes adequate consideration being paid to how to win bigger clients. Notwithstanding exceptions, it should be noted that most clients refer clients with similar characteristics. The more likely way to be referred better clients is to nurture your best clients, not running around trying to super-please minor ones.